

No. 11-697

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IN THE  
**Supreme Court of the United States**

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SUPAP KIRTSANG D/B/A BLUECHRISTINE 99,  
*Petitioner,*

v.

JOHN WILEY & SONS, INC.,  
*Respondent.*

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**On Writ of Certiorari  
to the United States Court of Appeals  
for the Second Circuit**

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**BRIEF OF OMEGA S.A. AS *AMICUS CURIAE*  
IN SUPPORT OF RESPONDENT**

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## **CORPORATE DISCLOSURE STATEMENT**

Pursuant to Rule 29.6 of the Rules of this Court, *amicus curiae* Omega S.A. states the following:

Omega S.A. is a wholly owned subsidiary of a publicly held Swiss corporation, The Swatch Group, Ltd. The Swatch Group, Ltd. is the parent company of Omega S.A.

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## INTEREST OF *AMICUS CURIAE*<sup>1</sup>

*Amicus* Omega S.A. manufactures watches in Switzerland that bear laser-engraved copies of the Omega Globe Design, a work protected by copyright in the United States. The successful marketing and distribution of Omega's watches in the United States require substantial investment – in advertising and other marketing, in sponsorships, in dealer training, and in customer service, for example – which may not be required or justified in other geographic markets. To recover market-specific investments and to ensure dealer excellence, retailers charge prices in the United States that are higher than the prices charged in other, less developed and less competitive markets. Omega accordingly enters into agreements with overseas distributors that specifically limit their distribution rights to particular geographic territories and withholds authorization to import into the United States.

Contractual restrictions with distributors are not adequate, however, to prevent free-riding and to ensure that Omega's U.S. distributors and dealers can reap the legitimate benefits of their investment. Omega accordingly relies on U.S. copyright law – in particular, the restriction on unauthorized importa-

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<sup>1</sup> Pursuant to Supreme Court Rule 37.6, counsel for *amicus* represent that they authored this brief in its entirety and that none of the parties or their counsel, nor any other person or entity other than *amicus* or its counsel, made a monetary contribution intended to fund the preparation or submission of this brief. Both petitioner and respondent have consented to the filing of this brief. Counsel for respondent has filed a letter with the Clerk granting blanket consent to the filing of *amicus* briefs; counsel for petitioner has consented to the filing of this brief, as reflected in a letter filed contemporaneously with this brief.

tion under Section 602(a)(1) of the Copyright Act of 1976 (“Copyright Act” or “1976 Act”) – to enforce its distributors’ and dealers’ exclusive rights. One such case involved a suit for copyright infringement against retail giant Costco, which had deliberately obtained “gray market” Omega watches for sale in its retail stores after Omega refused to provide watches to Costco on the terms that Costco demanded. *See Omega S.A. v. Costco Wholesale Corp.*, 541 F.3d 982, 984 (9th Cir. 2008), *aff’d by an equally divided Court*, 131 S. Ct. 565 (2010) (per curiam).

In that case, the Ninth Circuit held that 17 U.S.C. § 109(a) – the “first sale” doctrine – provides “no defense to an infringement action under §§ 106(3) and 602(a)[(1)] that involves (1) foreign-made, non-piratical copies of a U.S.-copyrighted work, (2) unless those same copies have already been sold in the United States with the copyright owner’s authority.” *Id.* at 983. That ruling was consistent with the uniform, decades-old interpretation of these provisions. This Court granted certiorari to review that ruling; an equally divided Court affirmed it. Omega accordingly has a significant interest in the proper construction of § 109(a), one that will ensure that § 602(a)(1) continues to provide protection against unauthorized importation of works protected by U.S. copyright – as Congress intended.

## SUMMARY OF ARGUMENT

I. Section 109(a) of the Copyright Act allows the owner of a copy “lawfully made under this title” to sell that copy without infringing the copyright owner’s exclusive distribution right under § 106(3). 17 U.S.C. § 109(a). Section 602(a)(1) provides that “[i]mportation into the United States, without the authority of the owner of copyright under this title, of copies . . . of a work that have been acquired outside the United States is an infringement of the exclusive right to distribute copies . . . under section 106.” *Id.* § 602(a)(1). The Second Circuit held that the unauthorized importation of foreign-made copies produced for sale solely outside the United States violates § 106(3) and § 602(a)(1) of the Copyright Act, because such copies are not “lawfully made under this title” and the first-sale defense under § 109(a) therefore is not available. Pet. App. 27a-28a. That holding is consistent with the plain meaning of § 109(a), because a copy made overseas for distribution overseas is not, without more, “lawfully made under this title.” It is strongly supported by this Court’s statement, in *Quality King Distributors, Inc. v. L’Anza Research International, Inc.*, 523 U.S. 135 (1998), that the first-sale defense does not apply to copies that are “‘lawfully made’ not under the United States Copyright Act, but instead, under the law of some other country.” *Id.* at 147. It preserves a meaningful role for § 602(a)(1), which broadly prohibits unauthorized importation of copies, including legitimate copies. *See Bilski v. Kappos*, 130 S. Ct. 3218, 3228 (2010) (statute should be construed to avoid rendering any provision superfluous or insignificant). And it is consistent with the common-law roots of the first-sale doctrine, because it avoids

applying that doctrine where a copyright owner has not exercised – and thus has not exhausted – any rights under the Copyright Act.

II. The Second Circuit’s holding – that copies manufactured abroad for sale abroad are not “lawfully made under this title” – allows a copyright owner to authorize foreign editions of works without undermining the value of exclusive distribution rights in the United States. That is precisely what Congress intended and a result that this Court endorsed in *Quality King*. Petitioner and his *amici* argue, however, that, if “lawfully made under this title” is understood to be synonymous with “lawfully made *in the United States*,” it would lead to anomalous results: in particular, it would allow a copyright owner to avoid application of the first-sale doctrine – even after domestic sales authorized by the copyright owner – for copies manufactured overseas.

There is no evidence that any copyright owner has ever attempted to use a copyright in this fashion under the 1976 Act. Moreover, these arguments depend on an incorrect reading of the words “lawfully made *under this title*.” That phrase need not refer to the place of manufacture; rather, it refers to whether the copy carries with it the copyright owner’s authorization to import and distribute in the United States. Because that question turns on U.S. copyright law – irrespective of the place of manufacture – this construction gives proper effect to the phrase “under this title” while avoiding the potential anomalies created by treating the phrase as imposing a strictly geographic limitation.

## ARGUMENT

### I. THE FIRST-SALE PROVISION DOES NOT APPLY TO COPIES MADE ABROAD AND SOLD WITHOUT THE COPYRIGHT OWNER'S AUTHORIZATION TO IMPORT OR DISTRIBUTE IN THE UNITED STATES

Based on the language of the Copyright Act, this Court's analysis in *Quality King Distributors, Inc. v. L'Anza Research International, Inc.*, 523 U.S. 135 (1998), and long-standing exhaustion principles, a copyright owner can make and sell copies of its work abroad without surrendering the exclusive rights granted under § 106(3) and § 602(a)(1) of the Copyright Act to import and distribute copies domestically.

#### A. A Copy Is Not “Lawfully Made Under This Title” When Its Reproduction and Distribution Do Not Implicate Any Exclusive Rights Granted Under the Copyright Act

1. Section 109(a) permits “the owner of a particular copy . . . *lawfully made under this title*” “to sell or otherwise dispose of the possession of that copy.” 17 U.S.C. § 109(a) (emphasis added). The meaning of the words “lawfully made under this title” is plain: a copy is lawfully made under Title 17 if the making of the copy is both *governed by* and *consistent with* the Copyright Act. *See Ardestani v. INS*, 502 U.S. 129, 135 (1991). If the making of the copy is not governed by the Copyright Act, the copy is not made “under this title” at all. *See Quality King*, 523 U.S. at 142 n.9 (“It is noteworthy that § 109(a) . . . does not apply to ‘any copy’; it applies only to a copy that was ‘lawfully made under this title.’”).

The plain language of § 109(a) strongly supports the judgment below. *See Connecticut Nat’l Bank*



*v. Germain*, 503 U.S. 249, 253-54 (1992) (“[C]ourts must presume that a legislature says in a statute what it means and means in a statute what it says there. When the words of a statute are unambiguous, then, this first canon is also the last . . . .”) (citations omitted). It is uncontested that respondent’s subsidiary printed the textbooks at issue for distribution outside of the United States. The making of the copies thus did not involve the exercise of any U.S. rights. The Second Circuit was accordingly correct that the copies were not lawfully made *under Title 17*. See Pet. App. 27a-28a.

Section 106 of the Copyright Act enumerates the copyright owner’s “exclusive rights to do and to authorize” certain activities, including the right “to reproduce the copyrighted work.” 17 U.S.C. § 106(1). But those exclusive rights do not apply to conduct that takes place exclusively outside the United States. See *United Dictionary Co. v. G. & C. Merriam Co.*, 208 U.S. 260, 264 (1908); 4 Melville B. Nimmer & David Nimmer, *Nimmer on Copyright* § 17.02, at 17-19 (rev. ed. 2010) (“[C]opyright laws do not have any extraterritorial operation.”); cf. *Microsoft Corp. v. AT&T Corp.*, 550 U.S. 437, 454-55 (2007) (“United States law governs domestically but does not rule the world . . . . Foreign conduct is [generally] the domain of foreign law . . . .”) (internal quotation marks omitted; alteration in original); *Beechwood Music Corp. v. Vee Jay Records, Inc.*, 328 F.2d 728, 729 (2d Cir. 1964) (per curiam) (“It would be quite unreasonable to construe the condition of the compulsory license clause . . . as being satisfied by the manufacture of records in a foreign country, at least when these have not been brought into the United States.”) (internal quotation marks omitted). Accordingly, when a copy

is manufactured outside the United States for sale outside the United States, it cannot be “made in accordance with the Copyright Act” – to use the definition urged by petitioner. Pet. Br. 24 (internal quotation marks omitted). Nor can it be made in violation of the Copyright Act. The Copyright Act simply does not govern the conduct.

Petitioner argues that, “[f]rom U.S. soil, the U.S. company authorized its wholly owned subsidiary to make the copies,” *id.*, but any such authorization did *not* involve any exercise of U.S. copyright. To the contrary, the Copyright Act simply does not govern whether a copy may be reproduced overseas for sale overseas. See 2 *Nimmer on Copyright* § 8.11[B][1], at 8-152.2 (“[A]ll the rights conferred under the Copyright Act relate to exploitation within this country.”). Respondent’s subsidiary’s rights to reproduce and distribute copies in Asia or elsewhere overseas are governed by the law of the countries where the reproduction and distribution took place – not by Title 17. See Berne Convention for the Protection of Literary and Artistic Works art. 5(1), revised at Paris July 24, 1971, 25 U.S.T. 1341, 828 U.N.T.S. 221.

The phrase “lawfully made under this title” should be understood in light of “the normal meaning of the language chosen by Congress.” *Regents of Univ. of California v. Public Employment Relations Bd.*, 485 U.S. 589, 595 (1988). Where, as here, a copy is alleged to be lawfully made solely on the basis of its manufacture, it can be lawfully made “under this title” only if the Copyright Act governs that act of manufacture. Accordingly, it contradicts the plain meaning of the provision to say that copies made overseas for sale outside the United States are either

lawfully or unlawfully “made *under this title*.”<sup>2</sup> Because there is no other basis on which petitioner claims that the copies at issue were “lawfully made under this title,” the defense provided under § 109(a) is unavailable.

2. This straightforward understanding of “lawfully made under this title” is fully consistent with the pervasive use of the phrase “under this title” in the Copyright Act to specify rights or conduct governed by U.S. law. To give just a few examples, both § 106 and § 602(a) refer to “the owner of copyright under this title,” 17 U.S.C. §§ 106, 602(a)(1), (2) – *i.e.*, the holder of rights granted *under U.S. law*. Section 104 refers to works that “are subject to protection under this title,” *id.* § 104(a), (b) – *i.e.*, that are protected *under U.S. law*, as distinguished from, for example, protection solely under foreign law, *see id.* § 104(c)-(d).<sup>3</sup> Section 114(d)(4) refers to “remedies available under this title,” *id.* § 114(d)(4)(B)(iii), (C) – *i.e.*, remedies available under U.S. law. Section 503 refers to actions “under this title,” *id.* § 503(a)(1) – *i.e.*, actions based on the rights granted by the Copyright Act. The phrase is used throughout Title 17 in the same manner.

That a work made abroad for distribution abroad is not “lawfully made under this title” is also compati-

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<sup>2</sup> By contrast, the copies at issue in *Quality King* were made in the United States by the copyright owner and therefore were “lawfully made under this title.”

<sup>3</sup> Petitioner notes that works published nearly anywhere in the world enjoy copyright protection under U.S. law, Pet. Br. 30-31, but they enjoy such protection *with respect to conduct in the United States*. The Copyright Act does not confer any exclusive rights with respect to conduct that takes place overseas, whether the work is a U.S. work or a foreign work.

ble with the use of the phrase elsewhere in the Copyright Act. Sections 109(c) and 109(e) limit exclusive rights to display and/or perform copyrighted works that are “lawfully made under this title.” Applying the proper construction of the phrase to those provisions simply means that the limitations in those sections would not apply to copies manufactured abroad and imported without the copyright owner’s authorization – in other words, the “first-sale” defense under § 109(c) and § 109(e) would be no broader than under § 109(a), which is perfectly sensible.<sup>4</sup> Under § 110, certain educational performances and displays are “not infringements of copyright” unless they are “given by means of a copy that was not lawfully made under this title, and that the person responsible for the performance knew or had reason to believe was not lawfully made.” 17 U.S.C. § 110(1); *see also id.* § 110(2). Under the proper construction of “lawfully made under this title,” if such a performance were by means of a copy that was imported in violation of § 602(a)(1), and the responsible person or institution was aware of the violation, it would lose the protection afforded for performances by means of non-

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<sup>4</sup> Petitioner argues that, if the phrase “lawfully made under this title” means “lawfully made in the United States,” then § 109(e) would not reach the Fourth Circuit’s ruling in *Red Baron-Franklin Park, Inc. v. Taito Corp.*, 883 F.2d 275 (4th Cir. 1989), because the video-game circuit boards at issue in the case were made in Japan. Pet. Br. 36. But the Fourth Circuit rejected defendant’s first-sale defense because, it held, § 109(a) applies only to *distribution*, not to public performance. *See* 883 F.2d at 281. In response to the Fourth Circuit’s decision, in the case of video games, Congress extended the first-sale defense to display and public performance. *See* 17 U.S.C. § 109(e). But there is no reason to believe that Congress intended to extend the first-sale defense in such cases to works that are not within the coverage of § 109(a).

infringing copies. That result, too, makes perfect sense.

Finally, the use of the phrase in one provision of the Audio Home Recording Act of 1992 is likewise entirely compatible. That statute requires payments of royalties, not by those who copy or distribute a work protected by copyright, but by vendors of digital audio recording devices and digital audio recording media. *See* 17 U.S.C. §§ 1003, 1004.<sup>5</sup> Those royalties are paid into two funds and then distributed to songwriters, music publishers, record labels, and artists. *See id.* § 1006(b). To qualify for royalties from these funds, an “interested copyright party” must have a “musical work or sound recording” that has been “embodied in a digital musical recording or an analog musical recording lawfully made under this title that has been distributed.” *Id.* § 1006(a)(1)(A). Under the proper construction of that provision, if a copyright owner had *not* authorized importation and domestic distribution, that work would not qualify for royalty payments under § 1006(a)(1)(A). It makes perfect sense for Congress to provide royalties only in those circumstances where domestic distribution is authorized by the copyright owner; that result is in no sense “absurd[.]” (Pet. Br. 36).

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<sup>5</sup> In exchange, the statute provides that “[n]o action may be brought under this title alleging infringement of copyright based on the manufacture, importation, or distribution of a digital audio recording device, a digital audio recording medium, an analog recording device, or an analog recording medium, or based on the noncommercial use by a consumer of such a device or medium for making digital musical recordings or analog musical recordings.” 17 U.S.C. § 1008; *cf. Metro-Goldwyn-Mayer Studios Inc. v. Grokster, Ltd.*, 545 U.S. 913 (2005) (discussing indirect infringement).

## B. *Quality King* Rejects Petitioner’s Construction of § 109(a)

1. The conclusion that § 109(a) applies only to copies made in a manner that implicates the exclusive rights granted by the Copyright Act also is mandated by *Quality King*. The Court’s reasoning “implies that it would endorse the prevailing law” providing that the first-sale doctrine is inapplicable to foreign-made copies sold for overseas distribution. 2 Paul Goldstein, *Goldstein on Copyright* § 7.6.1.2.a, at 7:144 (2010 Supp.); see also 2 *Nimmer on Copyright* § 8.12[B][6][c], at 8-178.4(7); American Bar Ass’n, Recommendation No. 109, at 8-9 (Feb. 2010) (“ABA Recommendation”) (“[I]t is apparent from the Supreme Court’s decision in *Quality King* that a copyright owner may, pursuant to § 602(a)[(1)], prevent the importation of certain copyrighted works lawfully made under the law of another country.”), available at [www.abanet.org/leadership/2010/midyear/summary\\_of\\_recommendations/109.doc](http://www.abanet.org/leadership/2010/midyear/summary_of_recommendations/109.doc).

In rejecting the argument that § 602(a)(1) would be effectively superfluous if it were subject to the first-sale defense of § 109(a), the Court noted that, notwithstanding the first-sale defense, § 602(a)(1) nevertheless “applies to a category of copies that are neither piratical nor ‘lawfully made under this title,’” including “copies that were ‘lawfully made’ not under the United States Copyright Act, but instead, under the law of some other country.” *Quality King*, 523 U.S. at 147. In elaborating on the category of copies that would be both lawfully made and *not* subject to the first-sale doctrine, the Court noted that “a publisher of the United States edition and a publisher of the British edition of the same work” would “each . . .

make lawful copies.” *Id.* at 148. The Court continued:

If *the author of the work* gave the exclusive United States distribution rights – enforceable under the Act – to the publisher of the United States edition and the exclusive British distribution rights to the publisher of the British edition, however, presumably only those made by the publisher of the United States edition would be “lawfully made under this title” within the meaning of § 109(a). The first sale doctrine would not provide the publisher of the British edition who decided to sell in the American market with a defense to an action under § 602(a)[(1)] (or, for that matter, to an action under § 106(a)(3), if there was a distribution of the copies).

*Id.* (footnote omitted; emphasis added); *see also* 17 U.S.C. § 201(a) (“Copyright in a work protected under this title vests initially in the author or authors of the work.”). The Court’s example thus involves copies that are authorized by the owner of the U.S. copyright – *i.e.*, the author of the work – but that may not be imported without separate authorization.

2. Petitioner disputes this straightforward understanding of the Court’s discussion in *Quality King*, arguing that the “reason” that such copies would not be “lawfully made under this title” is because “the hypothetical British distributor . . . sold directly into the U.S. before there was any first sale.” Pet. Br. 41. That explanation cannot be squared with the Court’s clear statement that “only those [copies] made by the publisher of the United States edition would be ‘lawfully made under this title’ within the meaning of § 109(a).” 523 U.S. at 148. Nor does it make any

sense to suppose that a publisher could evade the restriction on importation simply by selling to a middleman overseas. The *Quality King* Court’s analysis depended on the understanding that it is *not* the case that any copy made under the authority of the U.S. copyright owner is subject to § 109(a). Instead, a copyright owner may grant distribution rights under the U.S. copyright to one licensee and distribution rights under a foreign copyright to others.<sup>6</sup>

Furthermore, the Court’s construction of § 109(a) was central to the Court’s holding that § 602(a)(1) is subject to the first-sale defense; it is no mere dicta. See *Seminole Tribe of Florida v. Florida*, 517 U.S. 44, 67 (1996) (“When an opinion issues for the Court, it is not only the result but also those portions of the opinion necessary to that result by which we are bound.”); *Ashcroft v. ACLU*, 535 U.S. 564, 594 (2002) (Kennedy, J., concurring in the judgment) (statement that was “one rationale for the holding of the case” cannot be dismissed as dicta); *Freytag v. Commissioner*, 501 U.S. 868, 902-03 (1991) (Scalia, J., concurring in part and concurring in the judgment) (Court should “follow the course mapped out” in prior

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<sup>6</sup> Under modern copyright law, national exhaustion (or, in the case of the European Union, community-wide exhaustion) – not international exhaustion – is the norm. See Ryan L. Vinelli, *Bringing Down the Walls: How Technology Is Being Used To Thwart Parallel Importers Amid the International Confusion Concerning Exhaustion of Rights*, 17 *Cardozo J. Int’l & Comp. L.* 135, 148-51 (2009). Under a national exhaustion regime, a copyright owner may authorize a sale of a copy in one country without exhausting its right to bar distribution of that copy in another. See Theo Papadopoulos, *The First-Sale Doctrine in International Intellectual Property Law: Trade in Copyright Related Entertainment Products*, 2 *Ent. L.* 40, 50 (2003). U.S. law is consistent with the prevailing view.



decision where earlier statement was “essential part of [the Court’s] reasoning”); *County of Allegheny v. ACLU*, 492 U.S. 573, 668 (1989) (Kennedy, J., concurring in the judgment in part and dissenting in part) (“As a general rule, the principle of *stare decisis* directs us to adhere not only to the holdings of our prior cases, but also to their explications of the governing rules of law.”). And it is well settled that “[c]onsiderations of *stare decisis* have special force in the area of statutory interpretation,” where “Congress remains free to alter what [this Court] ha[s] done.” *Patterson v. McLean Credit Union*, 491 U.S. 164, 172-73 (1989).

Congress recently recodified § 602(a)(1). In doing so, it could have addressed any portion of the analysis in *Quality King* with which it did not agree. Congress instead maintained § 602(a)(1) unchanged. Indeed, the understanding that § 602(a)(1) bars importation of legitimate copies made and sold abroad for foreign distribution has been the prevailing law for nearly 30 years. See 2 *Goldstein on Copyright* § 7.6.1.2.a, at 7:141. Congress has amended the Copyright Act more than 50 times since the district court for the Eastern District of Pennsylvania decided *CBS, Inc. v. Scorpio Music Distributors, Inc.*, 569 F. Supp. 47 (E.D. Pa. 1983), *aff’d*, 738 F.2d 424 (3d Cir. 1984) (table), which first held that the first-sale defense of § 109(a) was not available in the case of goods manufactured and sold abroad. Virtually every case to decide the issue in the subsequent decades – in circumstances involving all types of copyrighted works, including literary works, computer programs, and graphic works – has reached the

same result.<sup>7</sup> When Congress has disapproved of the results reached under the courts' reading of the Copyright Act, it has not hesitated to amend the law. *See supra* note 4. The long period of congressional inaction in the face of effectively unanimous judicial interpretation argues strongly against the adoption of the conflicting interpretation that petitioner advocates. *Cf. Bragdon v. Abbott*, 524 U.S. 624, 645 (1998) ("When . . . judicial interpretations have settled the meaning of an existing statutory provision, repetition of the same language in a new statute indicates, as a general matter, the intent to incorporate its . . . judicial interpretations as well.").

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<sup>7</sup> *See Parfums Givenchy, Inc. v. Drug Emporium, Inc.*, 38 F.3d 477, 481 (9th Cir. 1994); *BMG Music v. Perez*, 952 F.2d 318, 319 (9th Cir. 1991); *Microsoft Corp. v. Big Boy Distribution LLC*, 589 F. Supp. 2d 1308, 1317 (S.D. Fla. 2008); *Microsoft Corp. v. Intrax Group, Inc.*, No. C 07-1840 CW, 2008 WL 4500703, at \*3 (N.D. Cal. Oct. 6, 2008); *Microsoft Corp. v. Cietdirect.com LLC*, No. 08-60668-CIV, 2008 WL 3162535, at \*5 (S.D. Fla. Aug. 5, 2008); *Pearson Educ., Inc. v. Liao*, No. 07-Civ-2423 (SHS), 2008 WL 2073491, at \*3 (S.D.N.Y. May 13, 2008); *Swatch S.A. v. New City Inc.*, 454 F. Supp. 2d 1245, 1254 (S.D. Fla. 2006); *U2 Home Entm't, Inc. v. Lai Ying Music & Video Trading, Inc.*, No. 04 Civ. 1233 (DLC), 2005 WL 1231645, at \*4 (S.D.N.Y. May 25, 2005), *aff'd in part, vacated in part on other grounds*, 245 F. App'x 28 (2d Cir. 2007); *UMG Recordings, Inc. v. Norwalk Distribs., Inc.*, No. SACV 02-1188, 2003 WL 22722410, at \*3-\*4 (C.D. Cal. Mar. 13, 2003); *Lingo Corp. v. Topix, Inc.*, No. 01 Civ. 2863 (RMB), 2003 WL 223454, at \*4 (S.D.N.Y. Jan. 31, 2003); *Hearst Corp. v. Stark*, 639 F. Supp. 970, 976-77 (N.D. Cal. 1986); *Selchow & Righter Co. v. Goldex Corp.*, 612 F. Supp. 19, 25 (S.D. Fla. 1985); *Nintendo of Am., Inc. v. Elcon Indus., Inc.*, 564 F. Supp. 937, 943-44 (E.D. Mich. 1982); *cf. UMG Recordings, Inc. v. Disco Azteca Distribs., Inc.*, 446 F. Supp. 2d 1164, 1173 (E.D. Cal. 2006).

**C. The First-Sale Defense Cannot Apply to Authorized Copies, Made and Sold Abroad for Foreign Distribution, Without Depriving § 602(a)(1) of Significance**

1. The conclusion that § 109(a) does not apply to foreign-made copies sold for distribution abroad is likewise necessary to avoid depriving § 602(a)(1) of practical significance. *See Bilski v. Kappos*, 130 S. Ct. 3218, 3228 (2010) (avoiding construction that would “violate the canon against interpreting any statutory provision in a manner that would render another provision superfluous”); *New Process Steel, L.P. v. NLRB*, 130 S. Ct. 2635, 2640 (2010) (adopting construction as “the only way to harmonize and *give meaningful effect to* all of the provisions” in the statutory provision) (emphasis added). That principle has particular force in this context, because § 109(a) and § 602(a)(1) were adopted as part of the same legislation, the Copyright Act of 1976. *See Bilski*, 130 S. Ct. at 3251 (Stevens, J., concurring in the judgment).

Section 602(a)(1) states that “[i]mportation into the United States, without the authority of the owner of copyright under this title, of copies . . . of a work that have been acquired outside the United States is an infringement of the exclusive right to distribute copies . . . under section 106.” 17 U.S.C. § 602(a)(1). To make sense of this provision in the context of § 602 as a whole, it must be read to apply not only to unauthorized or piratical copies, but to authorized copies as well. *See 2 Goldstein on Copyright* § 7.5.2, at 7:130.1 (“Section 602(a)[(1)] encompasses both piratical and gray market goods, and provides that their unauthorized importation into the United States infringes section 106(3)’s exclusive right to distribute”).

Indeed, the Court already reached this conclusion in *Quality King*. See 523 U.S. at 147.

The conclusion that § 602(a)(1) must apply to non-piratical copies made and sold abroad – notwithstanding the first-sale doctrine – is plainly correct. Sections 602(a)(2) and 602(b) provide remedies in the case of piratical goods that would entirely subsume § 602(a)(1) if that provision were limited to unauthorized copies. Section 602(a)(2) provides that “[i]mportation into the United States . . . without the authority of the owner of copyright under this title, of copies . . . the making of which either constituted an infringement of copyright, or which would have constituted an infringement of copyright if this title had been applicable, is an infringement . . . actionable under sections 501 and 506.” 17 U.S.C. § 602(a)(2). And § 602(b) prohibits importation of such copies, providing United States Customs and Border Protection authority to prevent importation of such piratical copies.

The Court in *Quality King* made clear that § 602(a)(1) applies to copies lawfully made under a foreign copyright, *see supra* Part I.B; it also noted, however, that, “even if § 602(a)[(1)] did apply only to piratical copies, it at least would provide the copyright holder with a private remedy.” 523 U.S. at 146. But § 602(a)(2) now provides that private remedy – a remedy that applies not only to importation but also to exportation – to complement the criminal and Customs-enforcement remedies provided in § 602(a)(2) and § 602(b). Section 602(a)(1) provides no additional remedy with respect to piratical copies; its sole purpose is with respect to copies lawfully made under some other law.

The Court also noted that, “because the protection afforded by § 109(a) is available only to the ‘owner’ of a lawfully made copy (or someone authorized by the owner), the first sale doctrine would not provide a defense to a § 602(a) action against any nonowner such as a bailee, a licensee, a consignee, or one whose possession of the copy was unlawful.” *Id.* at 146-47. But, as a leading commentator has noted, “[i]t may be wondered whether such potential causes of action are more than theoretical” because, “[i]n a typical commercial transaction, . . . the shipper transfers ‘possession, custody, control *and title* to the products.’”” 2 *Nimmer on Copyright* § 8.12[B][6][c], at 8-178.4(6) n.111.61 (citations omitted; emphasis added). If Congress intended § 602(a)(1) to apply only to copies imported by non-owners, it hardly would have used the broad phrase “acquired outside the United States.” See ABA Recommendation at 9 (“We share the view of the . . . court [in *John Wiley & Sons, Inc. v. Kirtsaeng*, No. 08 Civ. 7834 (DCP), 2009 WL 3364037 (S.D.N.Y. Oct. 19, 2009)] that it would be troubling if th[e] category of works [subject to § 602(a)(1)] were limited to those held by bailees and similar possessors, in light of the statute’s broad language.”).

The understanding that § 602(a)(1) applies to legitimate copies is further reinforced by the fact that the other provisions of § 602 make clear that, when Congress intends to limit statutory coverage to piratical copies, it does so expressly. Congress designates unauthorized copies by referring to circumstances “where the making of the copies” “would have constituted an infringement of copyright if this title had been applicable.” 17 U.S.C. § 602(a)(2), (b). Had it

intended to limit the coverage of § 602(a)(1) in that fashion, it could have done so.

2. The legislative history of § 602(a)(1) strongly reinforces the conclusion that the provision was intended to protect the right to domestic distribution granted in § 106(3) by prohibiting importation of legitimate copies without authorization from the owners of the copyright. From its inception, it was understood that “what was at issue” in the draft provisions leading up to § 602(a)(1) was a copyright owner’s ability “to grant a U.S. distributor an exclusive right to distribute copies of the work in the United States.” 4 William F. Patry, *Patry on Copyright* § 13:42, at 13-89 (2010).

In legislative deliberations leading up to the adoption of the 1976 Copyright Act, the Copyright Office explained that the new provision would address foreign copies that, although lawfully made for distribution abroad, “if sold in the United States, would be sold in contravention of the rights of the copyright owner who holds the exclusive right to sell copies in the United States.” Staff of H. Comm. on the Judiciary, 88th Cong., *Copyright Law Revision Part 4: Further Discussions and Comments on Preliminary Draft for Revised U.S. Copyright Law* 203 (Comm. Print 1964). The Register of Copyrights clearly distinguished between the prohibition on importation of “piratical” copies in proposed § 602(b) – which would reach any “unauthorized edition” made abroad – from “importation for infringing distribution,” *i.e.*, where “copies . . . were lawfully made but their distribution *in the United States* would violate the exclusive rights of the U.S. copyright owner.” Staff of H. Comm. on the Judiciary, 89th Cong., *Copyright Law Revision Part 6: Supplementary Report of the*

*Register of Copyrights on the General Revision of the U.S. Copyright Law* 149-50 (Comm. Print 1965) (emphasis added). The Register stated specifically that the new provision would apply, for example, where “the copyright owner had authorized the making of copies in a foreign country for distribution only in that country.” *Id.* at 150.

The House Report likewise explains that “Section 602 . . . deals with two *separate* situations: importation of ‘piratical’ article[s] (that is, copies . . . made without any authorization of the copyright owner), and unauthorized importation of *copies . . . that were lawfully made.*” H.R. Rep. No. 94-1476, at 169 (1976), *reprinted in* 1976 U.S.C.C.A.N. 5659, 5785 (emphases added).

#### **D. The Ninth Circuit’s Judgment Is Consistent with Traditional Exhaustion Principles**

As the Court made clear in *Quality King*, the scope of the copyright first-sale defense is governed “not by judicial interpretation, but by an express statutory provision.” 523 U.S. at 142. Nevertheless, the conclusion that a copyright owner does not forfeit its exclusive domestic distribution right with respect to foreign-made copies made and sold for distribution abroad also is consistent with the history and policy underlying the first-sale doctrine.

Congress first adopted a statutory first-sale defense as part of the Copyright Act of 1909 to codify the holding of *Bobbs-Merrill Co. v. Straus*, 210 U.S. 339 (1908). The Court there held that the statutory right to “vend” did not entail the right to impose, under the copyright statutes, restrictions on the terms under which downstream purchasers would be permitted to resell copies they acquired free of any

contractual restrictions. Central to the Court’s holding was its determination that the copyright owner had, by selling the copies at issue in the United States, “*exercised* the right to vend.” *Id.* at 351 (emphasis added). The case thus reflects the notion that, “once the copyright owner first sells a copy of the work, his right to control its further distribution is exhausted.” 2 *Nimmer on Copyright* § 8.12[B][1][a], at 8-157.

The justification for the first-sale doctrine is that a copyright owner can, in general, realize the full value of his intellectual property rights upon an initial authorized sale. *See Bobbs-Merrill*, 210 U.S. at 351 (“The owner of the copyright in this case did sell copies of the book in quantities and at a price satisfactory to it.”); 2 *Goldstein on Copyright* §§ 7.6.1.1.b, 7.6.1.2.a, at 7:134, 7:141; *cf. United States v. Univis Lens Co.*, 316 U.S. 241, 251 (1942) (“The reward [the patentee] has demanded and received is for the article and the invention which it embodies and which his vendee is to practice upon it.”).<sup>8</sup> To the

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<sup>8</sup> A U.S. patent owner does not exhaust its right to exclude others from the use of its invention by making and selling an article under a foreign patent. The Federal Circuit (whose law governs this question) has reconfirmed that a sale by a patent owner under the law of a foreign country does not exhaust the patent owner’s rights to prevent infringing use (including importation) of the article sold. *See Fujifilm Corp. v. Benun*, 605 F.3d 1366, 1371 (Fed. Cir.) (per curiam), *cert. denied*, 131 S. Ct. 829 (2010). *Quanta Computer, Inc. v. LG Elecs., Inc.*, 553 U.S. 617 (2008), is in no way inconsistent: that case involved an authorized sale by a licensee under the U.S. patent, not a foreign sale governed by foreign patent law. *See id.* at 623-24 (describing broad license under U.S. patent).

Furthermore, there is no inconsistency between the current rule and traditional patent exhaustion doctrine. In fact, it long has been settled (as the defendant-appellee in *Bobbs-Merrill*



extent that a copyright owner is able to realize the full value of the intellectual property on first sale, there is less justification, at least for purposes of securing to the copyright owner the reward for his work, for allowing a copyright holder to restrict the terms of subsequent sales of the copy at issue.

Here, by authorizing copies of its copyrighted work to be made abroad, respondent exercised none of its rights under the Copyright Act and thus could not exhaust them. Furthermore, when a copy is sold subject to the restriction that it is not authorized for importation and distribution in the United States, the copyright owner has not bargained for or received compensation for the value of U.S. rights. See Richard A. Epstein, *Notice and Freedom of Contract in the Law of Servitudes*, 55 S. Cal. L. Rev. 1353, 1360 (1982). To the contrary, where such exclusive rights are granted to someone else (or exercised by the copyright owner itself), “competition with lower priced imports would inevitably prevent the United States copyright owner from realizing the full value of the copies . . . that it sells.” 2 *Goldstein on Copyright* § 7.6.1.2.a, at 7:141; see also *Swatch*, 454 F. Supp. 2d at 1254 (“Under Section 602(a)[(1)], Swatch had the right to prevent these products from entering

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conceded) that the owner “both of foreign and domestic patents for a particular invention” may “sell goods under the patent of a foreign country and reserve to himself the right to sell under the United States letters patent.” Brief for Appellee at 36, *Bobbs-Merrill Co. v. Straus*, No. 176 (U.S. filed Jan. 18, 1908) (citing *Dickerson v. Tinling*, 84 F. 192 (8th Cir. 1897); *Dickerson v. Matheson*, 57 F. 524 (2d Cir. 1893)); see also *Curtiss Aeroplane & Motor Corp. v. United Aircraft Eng’g Corp.*, 266 F. 71, 79 (2d Cir. 1920) (“[I]f the aeroplanes which are alleged to infringe had been built in Canada under a limited license, or under a Canadian patent, and then brought into the United States, infringement would have been made out.”).

the United States and competing with the identical products authorized to be distributed here.”).

Furthermore, there is nothing inconsistent with long-standing copyright principles about using a U.S. copyright to enforce the division of international markets among distributors of a work. As long ago as 1879, the writer of the leading treatise – extensively relied on by the Court in *Bobbs-Merrill* – observed:

[A]n American author, who on certain conditions can secure a copyright for his work both in the United States and in England, may make a valid assignment of the English copyright to one person, and either himself retain or assign to another the American copyright. . . . [I]n such case there is no division of copyright. The copyright granted by one government is wholly distinct from that conferred by another. When protection is secured for the same work in different countries, there is a separate and independent copyright *for each country*.

Eaton S. Drone, *A Treatise on the Law of Property in Intellectual Productions in Great Britain and the United States* 336 (1879) (emphasis added). The suggestion that the first-sale doctrine was traditionally applied in the case of copies that had been made and sold abroad is not correct. To the contrary, rights granted under U.S. law have been recognized as distinct from rights granted under foreign law; granting distribution rights under foreign law has never exhausted domestic distribution rights.

## II. UNDER A CORRECT CONSTRUCTION, § 109(a) APPLIES TO COPIES SOLD IN THE UNITED STATES WITH THE COPYRIGHT OWNER'S AUTHORIZATION

A. The Second Circuit stated that the phrase “lawfully made under this title” in § 109(a) “refers specifically and exclusively to works that are made in territories in which the Copyright Act is law, and not to foreign-manufactured works.” Pet. App. 27a-28a. The Second Circuit correctly held that a copy made overseas for distribution abroad is not “lawfully made under this title.” At the same time, the court’s suggestion that § 109(a) refers *only* to the location of manufacture was unnecessary to its holding because the copyright owner had not authorized the foreign-made copies for importation or distribution in the United States. As the Ninth Circuit recognized in *Omega* – that does not resolve the question whether copies manufactured abroad might, in other circumstances, be “lawfully made under this title” and therefore subject to § 109(a).

In fact, a copy can be “lawfully made under this title” because it carries with it – by virtue of rights granted to the manufacturer or distributor by the copyright owner, for example – a license under the Copyright Act to be distributed in the United States. Such a license can be granted irrespective of where the copies are manufactured. For example, an author could grant a publisher the right to distribute copies of a work in the United States; the publisher could print the works in Canada (for example) and then import and distribute the copies in the United States without infringing any of the author’s exclusive rights under U.S. law. Such copies are “lawfully made under this title” within the meaning of § 109(a)

because they were made pursuant to a license *under U.S. law* that permits the copies to be lawfully distributed in the United States. The making of the copies is thus both *governed by* U.S. law – because U.S. law governs whether the publisher has a license to distribute the copies in the United States – and *consistent with* U.S. law – because the owner of the U.S. copyright granted the license.

That construction of § 109(a) is consistent with the statutory text and with the explication of that statutory text given above. Section 109(a) applies to “a particular copy or phonorecord lawfully *made* under this title.” 17 U.S.C. § 109(a) (emphasis added). The term “made” does not correspond to any of the specific rights enumerated under § 106; there is no exclusive right to “make” a copy or phonorecord. There accordingly is no reason to understand “lawfully made under this title” as being limited to “lawfully *reproduced* under this title.” *See id.* § 106(1). Rather, when determining whether a “particular copy” is “lawfully made,” a court should consider not only whether it was reproduced in the United States with the copyright owner’s authorization but also whether the copyright owner authorized, under U.S. law, the importation or distribution of the particular copy. If the copyright owner has done so, then the copy is “lawfully made under this title” – that is, its making was both governed by and consistent with U.S. copyright law.

This reading makes particular sense because the first-sale doctrine qualifies the right to *distribute* copies – not the right to *reproduce* copies. *See 2 Nimmer on Copyright* § 8.12[A], at 8-154. The determination whether a particular copy is “lawfully made under this title” must refer to the characteris-

tics of the particular copy at the time of sale by the owner of the copy, not at the time of reproduction. For example, a U.S. copyright owner could, after a particular copy is reproduced abroad, authorize domestic distribution of that foreign-made copy. Such a copy – once authorization to distribute in the United States is granted – is “lawfully made under this title.” The conferral of intangible intellectual property rights is as much a part of “making” the copy as the reproduction of the physical object.

At the same time, when a copy is reproduced overseas, the author may withhold any authorization to import or distribute the copy in the United States – as this Court noted in *Quality King*. *See supra* pp. 11-12. Such a copy does not carry with it any rights under U.S. copyright law; it cannot be said to be “lawfully made *under this title*” without depriving the highlighted words of all meaning. That understanding of the phrase “lawfully made under this title” is, moreover, consistent with the policy underlying the first-sale doctrine. A foreign-made copy will be “lawfully made under this title” precisely in those cases where the owner of the exclusive U.S. distribution right has “exercised” that right with respect to the particular copy. *Bobbs-Merrill*, 210 U.S. at 351. If the copyright owner has exercised no U.S. rights – by reproducing the copy abroad exclusively for sale abroad – U.S. law in no way governs the making of the particular copy.

Petitioner argues that treating a foreign-made copy that the copyright owner has authorized for distribution in the United States as “lawfully made under this title” “sacrifices . . . fidelity to the statutory text.” Pet. Br. 25. But Petitioner fails to distinguish between the tangible copy and the intangible intel-

lectual property rights that are governed by the Copyright Act. See 17 U.S.C. § 202 (“Ownership of a copyright, or of any of the exclusive rights under a copyright, is distinct from ownership of any material object in which the work is embodied.”). The question whether a copy is “lawfully made under this title” for purposes of the first-sale doctrine appropriately focuses on whether the copyright owner has or has not exercised intellectual property rights under the Copyright Act with respect to that tangible copy. And, if a copy carries with it authorization for sale in the United States by virtue of the copyright owner’s affirmative exercise of exclusive rights under U.S. law, it is “lawfully made under this title.”

**B.** Recognition that “lawfully made under this title” does not refer to the location of manufacture but, instead, to the rights exercised by the U.S. copyright owner under the Copyright Act is not only the best reading of the language of the statute; it also demonstrates why none of the supposed anomalies identified by petitioner and his *amici* has ever come to pass.

The result in *this* case under either interpretation produces no anomaly. Respondent authorized both a U.S. edition of the work and an edition for sale overseas but not in the United States; the foreign edition was printed abroad. Under no plausible construction of the statutory language can copies of the foreign edition be said to have been “lawfully made under this title,” because – as noted above – their manufacture and distribution abroad did not involve the exercise of any of the U.S. copyright owner’s exclusive rights. And the ability of a work’s author to authorize separate U.S. and foreign editions of copyrighted works is at the heart of what Congress intended to

accomplish through the enactment of § 602(a)(1). See *Quality King*, 523 U.S. at 147-48. By importing the copies of an edition not authorized for importation or domestic distribution, petitioner deliberately undermined the value of the copyright owner's exclusive U.S. distribution rights, in violation of the statute.

Petitioner argues, however, that a copyright owner should not be able to control the further distribution of a foreign-manufactured work after an authorized sale in the United States. The possibility that any copyright owner would even attempt to use its copyright in this manner, however, is not only hypothetical, but counterfactual. The result in this case reflects the prevailing law as it has stood for 30 years – that is, since the district court's decision in *Scorpio*, which was followed nearly unanimously both before and after this Court decided *Quality King*. See *supra* note 7. If that interpretation of the Copyright Act invited bad consequences, they would have arrived long ago. But – notwithstanding petitioner's dire rhetoric – the supposed problem of assertion of exclusive distribution rights against downstream purchasers of copies that were lawfully imported and sold in the United States simply does not exist. We are aware of no reported case (at least since *Bobbs-Merrill*) in which a copyright owner sought to enforce restrictions on resale of a copy sold pursuant to the copyright owner's acknowledged authorization, and petitioner cites none. More revealing: petitioner's *amici* represent thousands of businesses, owning hundreds of thousands of retail locations, and include some of the most powerful corporate interests in America. If any copyright owner had asserted the right to control resale of a copy that was sold in the United States pursuant to the copyright owner's

authorization, *amici* would be aware of it. *Amici* offer neither any evidence that such a thing has occurred in the past nor any plausible scenario in which it might occur in the future.

In any event, under a correct construction of § 109(a) – and other provisions that include the phrase “lawfully made under this title” – the same protections that apply to copies reproduced in the United States apply to any copy that was imported or sold in the United States pursuant to the U.S. copyright owner’s authorization, because all such copies are “lawfully made under this title.” Moreover, in most circumstances, an authorized, unrestricted sale – whether in the United States or abroad – would confer such unrestricted resale rights. For example, in *Disenos Artisticos e Industriales, S.A. v. Costco Wholesale Corp.*, 97 F.3d 377 (9th Cir. 1996), the copyright owner authorized its licensee manufacturers to sell copies of the copyrighted work “anywhere in the world”; the court properly concluded that such authorization “necessarily implies authority to import the goods into the United States.” *Id.* at 382. Because the manufacture of the copies at issue in that case involved the exercise of rights granted to the copyright owner under U.S. law, such copies were “lawfully made under this title” – and the first-sale doctrine applied to them.<sup>9</sup>

In most cases, an unconditional sale by (or authorized by) a U.S. copyright owner abroad – in the

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<sup>9</sup> The Ninth Circuit rejected the plaintiff’s claim under § 602(a)(1), not on the basis of the first-sale doctrine, but because the plaintiff who sought to enforce restrictions on distribution of the copyrighted work did not own the copyright, and accordingly could not “use Section 602(a)[(1)] to control its distribution network.” *Disenos Artisticos*, 97 F.3d at 382.



absence of express restrictions – will confer implied authorization for importation into the United States, and the copy will therefore properly be deemed “lawfully made under this title.” That would certainly be true of an original artwork or software used in an automobile – to use two of the examples employed by petitioner and his *amici*. See Brief of Ass’n of Art Museum Directors, *et al.*; Pet. Br. 57. No art dealer would purchase a work subject to the restriction that it could not be imported into the United States, and it is far-fetched to believe that any artist would attempt to impose such a restriction. A collector who purchased such a work in Spain could import it without any concerns about violation of U.S. copyright law, and could confidently display it as “lawfully made under this title.” See 17 U.S.C. § 109(c). No automobile manufacturer would purchase software subject to any restriction on importation into the United States; because the copy of the software would presumably carry a worldwide license – including in particular a license under U.S. copyright law – it thus would be “lawfully made under this title.”<sup>10</sup>

Supposed concerns about improper restriction imposed after an authorized U.S. sale are simply a stalking horse. What petitioner and his *amici* seek is to eliminate the right that Congress granted U.S. copyright owners to block unauthorized importation of copies made subject to the explicit restriction that they are authorized only for sale abroad. But the

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<sup>10</sup> An author could grant a single manufacturer worldwide distribution rights under the copyright laws of various countries. In that case, the copies could well be made under both U.S. copyright law (because the copies are lawfully made for distribution in the United States) and the copyright law of other countries as well.

right to segment markets brings important benefits to both consumers and producers, particularly with respect to goods that have a significant intellectual property component.<sup>11</sup> The purpose of copyright (and patent) law is to “promote the Progress of Science and useful Arts, by securing for limited Times to Authors and Inventors the exclusive Right to their respective Writings and Discoveries.” U.S. Const. art. I, § 8, cl. 8. Congress made the quite reasonable judgment that protecting the value of U.S. distribution rights would help to promote creative efforts – benefiting all consumers. That is a judgment entirely within Congress’s power to make. *See Golan v. Holder*, 132 S. Ct. 873, 887-89 (2012); *Eldred v. Ashcroft*, 537 U.S. 186, 207 n.15 (2003); *see also Sony Corp. of Am. v. Universal City Studios, Inc.*, 464 U.S. 417, 431 (1984) (noting that courts are deferential to Congress’s judgment regarding copyright).

### CONCLUSION

The judgment of the court of appeals should be affirmed.

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<sup>11</sup> *See generally* Robert D. Anderson *et al.*, *Intellectual Property Rights and International Market Segmentation in the North American Free Trade Area*, in *Competition Policy and Intellectual Property Rights in the Knowledge-Based Economy* 397 (Robert D. Anderson & Nancy T. Gallini eds., 2007).

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